INDEPENDENT BANKERS' BANK

February 6, 2009

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Re: Amendments to Regulation D, Establishment of Limited Purpose Account Docket #R-1350

Dear Ms. Johnson:

Independent Bankers' Bank (IBB)[1] appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System (the Board) proposal to amend Regulation D, to authorize the establishment of limited purpose accounts referred to in the proposed rule as "Excess Balance Accounts" EBAs.

IBB is supportive of the Board's efforts to address the unintended consequences associated with the acceleration of the payment of interest on required and excess reserves. The bank **fully supports** the concept of Excess Balance Accounts as a means to mitigate the dislocations that have recently developed in the federal funds market. In the absence of the EBA concept; market configurations, current pass-through rules and the adverse impact these can have on leverage ratios could significantly limit a correspondent's ability act in the best interest of their respondents. The proposed modifications to Reg D will allow correspondent banks, including bankers' banks, to continue serving the critical liquidity needs of their respondent bank partners.

As the proposed rule accurately states, Regulation D currently requires that the balance in a pass-through account at a Reserve Bank held by a correspondent bank on behalf of a downstream respondent be treated as liability by the Reserve Bank exclusively to the pass-through correspondent. The correspondent is deemed to be the sole owner of the balance and must record the transaction accordingly on its books. In many cases respondents may, by agreement with their correspondent bank, direct them to maximize earnings on excess balances by selling them into the federal funds market or by holding them in a reserve account at a Reserve Bank under a pass-through agreement. These two alternatives have significantly different implications for the balance sheet of the correspondent. The former is structured as an off balance sheet transaction and, as such, is balance sheet neutral. The latter however is treated as an on-balance sheet obligation of the correspondent which can, in the presence of large pass-through balances, adversely impact capital adequacy by diluting the leverage capital ratio.

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[1] Independent Bankers' Bank is a Bankers Bank that provides correspondent banking services to over 500 community financial institutions throughout the Midwest with emphasis on those institutions in Illinois and Indiana. IBB's mission is to provide products and services to the community financial institutions in our market place, which allows them to perpetuate community banking in their community. Liquidity aggregation is one of the most important services that we provide to our shareholders and customers.

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Many respondent banks had historically chosen federal funds as the preferred alternative for excess balance investment. The recent dislocations in the funds market have made this option significantly less desirable to respondents and correspondents alike. This correspondent bank (IBB) is being frequently directed by its respondents to hold all or a majority of their liquidity in excess balances. IBB and our respondents share common concerns about the instability of the federal funds market. We have been advocates of an alternative that would permit these balances to be held in a Reserve Bank account where ownership passes "through", instead of to, the correspondent. This arrangement is not objectionable to the respondent, mitigates the leverage ratio pressures at the correspondent and in certain respects advances the monetary policy objectives of the Board.

IBB supports the establishment of EBAs, along with the mechanical attributes as described in the proposed rule change, as a viable solution to the excess balance dilemma. The proposed account structure would allow correspondent banks to deposit on an overnight basis, the aggregate excess balances of their respondents at a Reserve Bank under what effectively amounts to an "as agent" arrangement. IBB further states that the mechanical aspects of the proposal can be implemented as described with minimal difficulty.

Please accept our appreciation to the Board of Governors and staff for their work on this important project. We thank you for the opportunity to provide our comments and we look forward to the approval of the new rule.

Sincerely,

John D. Schneider, Jr.
Vice Chairman/CEO

Mark L. Ribelin
SVP/CFO